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C O N F I D E N T I A L SECTION 01 OF 03 TEL AVIV 002510

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TAGS: [PREL](#) [PGOV](#) [SENV](#) [KWBG](#) [ENRG](#) [IS](#) [GOI](#) [EXTERNAL](#) [ECONOMY](#) [AND](#) [FINANCE](#)

SUBJECT: BEN-ELIEZER DISCUSSES ENERGY REFORMS AND
COORDINATION WITH JORDAN AND PALESTINIANS

REF: A. TEL AVIV 02469

[1](#)B. TEL AVIV 00990

Classified By: Ambassador Richard H. Jones for reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: National Infrastructures Minister Binyamin Ben-Eliezer told the Ambassador on June 21 that he is looking to Central Asia, particularly to Azerbaijan, for long-term oil contracts. He reported that he recently returned from a trip to Baku in which he discussed with Azeri officials the possibility of extending the BTC oil pipeline to Israel. Ben-Eliezer also discussed with the Ambassador the possibility of British Gas (BG) returning to the negotiating table. He was not optimistic that the GOI would sign a deal with BG, however, because the company is "playing games" with the price, he claimed. He reported that the reorganization of Israel Electric Corporation (IEC) would begin in March 2007 and take approximately three years, during which time IEC would be split into production, distribution, and transport units. In response to the Ambassador's question, he seemed confident that he could work with the unions to avoid major disruptions during the privatization process. Ben-Eliezer expressed interest in the Red-Dead Sea water transfer project, and appeared anxious for the World Bank feasibility study to begin despite the fact that the study is not yet fully funded. In a discussion about water, electricity, and sewage issues, Ben-Eliezer said that the Palestinian Authority owes Israel NIS 350 million (\$78 million), but that the GOI is trying to get them to cooperate and pay the debt on their own before the GOI uses withheld tax revenue to pay off the PA's bills. He said that there is a lot of work to be done, but that Israel will not deal with Hamas unless it accepts the Quartet's conditions. End summary.

Looking for Oil Cooperation
In Central Asia

[1](#)2. (C) National Infrastructures Minister Binyamin Ben-Eliezer told the Ambassador on June 21 that he recently returned from an oil and gas conference in Azerbaijan, where he met with government officials and discussed extending the Baku-Tbilisi-Ceyhan (BTC) pipeline to Israel. According to Ben-Eliezer, the pipeline is currently expected to run 220 km. from Azerbaijan to Georgia and Turkey. Adding Israel would extend the pipeline an additional 400 km., and Azerbaijan could subsequently use the Ashkelon-Eilat pipeline to transmit oil to the Red Sea for sale to customers in East Asia. Ben-Eliezer mentioned that bringing oil through the Ashkelon-Eilat pipeline would cut the time and price of transport to Asia by one-third for the Azeris, but he did not specify on what he based his calculations. He said that the oil would not be shipped until 2011, so there is time to decide if the pipeline would run under water or over land, or even if the oil would more profitably be shipped by tanker. International Relations Director Gabby Levy added that the GOI would be interested in building three separate pipelines under water for oil, gas, and water, and that it is currently doing a feasibility study to check the possibilities (ref A). Ben-Eliezer commented that Kazakhstani officials are currently in Israel, and that he has met with them to discuss oil projects as well. He said that he plans to look to Central Asia, particularly Azerbaijan, for long-term oil contracts of perhaps 20 years.

Still Interested
in British Gas

[1](#)3. (C) Ben-Eliezer reported that he is also interested in acquiring more gas suppliers, noting that Israel only has Eastern Mediterranean Gas (EMG) and Yam Tethys Group (YTG) as its current suppliers. The Ambassador asked about the possibility of Israel and British Gas (BG) returning to the negotiating table. Ben-Eliezer responded that he hoped BG would "come back," but that he was unsure. He said that Prime Minister Ehud Olmert had met with British Prime Minister Tony Blair, and that Ben-Eliezer himself had discussed the issue with the British industry minister at the conference in Azerbaijan, but added that overall he is pessimistic about the possibility of concluding a deal with BG because the company is "playing games" with the price.

(Note: According to BG officials, the GOI offered BG \$3.10 and BG had asked for at least \$4.00, noting that current market prices are currently in the \$7-10 range. End note.) Ben-Eliezer commented that he recently spoke with Egyptian Intelligence Chief Omar Soliman, and claimed that Soliman told him that he would "try to get us BG." He mentioned that he is also in talks with Russia's Gazprom, and hopes to sign an MOU by the end of the year for Bluestream gas via Turkey, but did not add additional details.

Electricity "Reorganization"

14. (C) Moving on to the electricity sector, Ben-Eliezer said that for now he is planning on dividing the Israel Electric Corporation (IEC) into 3 units: production, distribution, and transport. He added that for the time being it would be a "reorganization," instead of a complete privatization, because he wants to move slowly on the project. He claimed that he cannot take risks with the plan, and that he has to ensure that there are no further power outages at the hands of the labor unions like those experienced three weeks ago. In response to the Ambassador's question on the timeline for the privatization, Ben-Eliezer responded that it would begin by March 1, 2007, and take a total of three years. Levy added that there would only be one transport company because Israel is small, that there will be several production companies, and that distribution companies will be established regionally. The Ambassador asked how Ben-Eliezer would deal with the unions, and Ben-Eliezer replied that he has good relations with them and will guarantee their future. He said that "things will have to change, but I will overcome." The Ambassador said that while the U.S. supports reform in the energy sector, the reforms should not unfairly disadvantage American investors in the Yam Tethys Group (YTG). (Note: Per ref B, an association of independent power producers (IPPs) has proposed changes to Israel's Natural Gas Law to force natural gas suppliers to sell to the state-run Israel Natural Gas Lines (INGL) at a fixed price. This would create a gas monopsony, which would benefit the IPPs at YTG's expense. End note.) Ben-Eliezer replied that he would look into the issue, and mentioned that he met with YTG last week to discuss the development of a gas field 100 km. up the coast off Haifa that is three times the size of YTG's current field off Gaza's coast.

15. (C) The Ambassador asked Ben-Eliezer when the privatization of the oil refineries would be complete. Ben-Eliezer replied that the GOI has issued the tender for the Ashdod refinery, and plans to proceed by privatizing the Haifa refinery in two-three years.

Red-Dead Water Coordination

16. (C) Ben-Eliezer told the Ambassador that he was in Jordan last week, and that he is very concerned about the Jordanians' lack of water. He said that the GOI is interested in beginning the World Bank (WB) feasibility study for the Red-Dead Sea water project, and that the WB fund currently has \$11 million of the \$15 million necessary to begin the study. He commented that he wants them "to just start" the study, since it could take two years, and that he would "help them get the rest of this money" later. Ben-Eliezer reported that the Red-Dead project would produce a total of 850 million cubic meters of fresh water annually, of which three-fourths would be sent to Jordan, and one-fourth would be delivered to Israel and the Palestinians. The Ambassador noted that this would be very significant for Jordan, and Ben-Eliezer agreed, adding that there is a lot of tension in the region caused by the lack of water, and that he hoped this would solve the problem for years to come.

Coordination with the Palestinians

17. (C) The Ambassador asked Ben-Eliezer about his coordination with Palestinians on issues such as the Hebron waste-water treatment plant and electricity supplies. Ben-Eliezer responded that for now the Palestinian Authority is not paying for water or electricity, and that they owe Israel approximately NIS 350 million (\$78 million). He said that the GOI is willing to coordinate with the Palestinians, and that he is trying to meet with Palestinian Authority (PA) President Mahmud Abbas, but added that he will not meet with Hamas. He commented that Palestinian terror groups do not understand that by targeting the power plant in Ashkelon, they risk hurting Gaza residents because that power plant supplies Gaza with electricity. The Ambassador asked whether the GOI would use withheld tax revenues to cover the NIS 350 million the PA owes Israel, and Ben-Eliezer replied that it was possible, but the government is not doing that for the moment. He explained that the GOI can keep the funds, but it is trying to convince the Palestinians to cooperate with

Israel and to pay the debts themselves.

18. (C) Ben-Eliezer commented that there is a lot of work to be done on water, sewage, and electricity, and that the GOI wants to help, but opined that Hamas wants to continue to play a "bloody game," and does not know how to proceed. He emphasized that he says every day that he is ready to sit with the PA, but only under the condition that Hamas accept the Quartet's conditions of recognition of Israel, cessation of violence, and acceptance of prior agreements. "They're our neighbors and we have to work together," he explained. Ben-Eliezer noted, however, that he listens to Palestinian radio daily -- born in Basra, Iraq, he reads, writes, and speaks Arabic -- and that he knows from this that Hamas will never recognize Israel. He said that it may become more pragmatic in the future if Palestinians pressure the group to change its policies, but speculated that, overall, Hamas will never change its beliefs.

19. (C) Ben-Eliezer noted that he is close friends with Abbas, but said that, unfortunately, Abbas is very weak. He claimed that after Gaza disengagement, he spoke with Abbas, in Arabic, and told him that the problem was now among the Palestinians, not between the Israelis and Palestinians, and that he should lead his people. Ben-Eliezer said he feels sorry for Abbas, and characterized him as having had pragmatic, acceptable, and realistic views for the past 15 years.

International Partnership
for the Hydrogen Economy

10. (C) The Ambassador asked about Israel's application to join the International Partnership for the Hydrogen Economy (IPHE), and what research it is undertaking in the field of alternative energy sources in order to qualify. (Note: Israel applied to join the IPHE in 2005, but to date has not qualified for membership. End note.) Ben-Eliezer claimed that Israel's lack of commitment to the IPHE is because the GOI does not have the budget, not because it is not interested. International Relations Director Levy added that Israel has had the terms of reference for the IPHE for some time now, and that it based its application on private-sector interest, but noted that the private sector expects the government to finance research and development initiatives, and unfortunately there are "no support funds this year." The Ambassador said that the U.S. strongly supports renewable energy research. Levy said that Ben-Eliezer does as well, and that he has been talking about renewable energies since his first day on the job.

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JONES